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EX-7

Decision No. 92817 MAR 17 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for authority to increase rates charged by it for electric service.

Application No. 59351
(Filed December 26, 1979)

ORDER MODIFYING DECISION NO. 92549
AND DENYING REHEARING

Petitions for rehearing and reconsideration of Decision No. 92549 have been filed by California Manufacturers Association (CMA) and California Industrial Energy Consumers (CIEC). A response to those petitions has been filed by Southern California Edison Company (Edison) in which Edison asks that rehearing be denied. We have carefully considered each and every allegation of error in those petitions and are of the opinion that good cause for granting rehearing has not been shown.

However, CMA's and CIEC's petitions do convince us that additional discussion and findings of fact are needed to explain fully our rationale in adopting rates based upon marginal generation and transmission costs and how such rates were derived. Therefore,

IT IS ORDERED that:

Decision No. 92549 is modified in the following respects:

(1) The discussion under the heading "d. Adopted Cost Recovery by Customer Group," found on pages 150, 151 and 152 shall include the following additional language:

"As we have in other recent electric rate increase proceedings, we conclude that cost recovery by customer groups should, in general, be based on marginal cost concepts as recommended by the staff rather than on embedded costs as recommended by Edison and others. In arriving at this conclusion we have used as a goal our often stated policy of adopting electric rates which encourage conservation, defined in Decision No. 85559 in Case No. 9804 as follows:

> '1. The term conservation of electricity encompasses any one or any combination of the following elements:
>
> a. The reduction in wasteful kilowatt-hour usage of electricity.
>
> b. The overall reduction of kilowatt-hour usage of electricity.
>
> c. The reduction of peak demands upon electric utility systems.
>
> Conservation in the sense of efficient allocation of electricity will be the keystone of the rate structure."'

We agree with the staff's conclusions that rates which send a clear and appropriate signal to a customer as to what is the cost effect of his decision to conserve in this sense should be helpful in achieving our goal. To do otherwise would, by the same logic, work against this goal.

Marginal costs, because they tend to reflect the true cost of a customer's decision to limit or increase conservation, are more likely to send these clear and appropriate pricing signals than would rates based upon embedded costs.

However, we agree with the witness for the Policy and Planning Division that the application of marginal cost principles to rate design and a determination of conservation cost-effectiveness does not require extension of unit marginal costs to a total system basis. Rather, a change in rate design should reflect an application of those principles to those sectors of utility operation which are significantly affected by a customer's decision to limit or increase energy conservation.

Customer-related and demand distribution marginal costs are clearly related to the connection of new customers, not to the decisions of existing customers described above, and therefore will not be given significant weight in setting rates which are effective for both existing and new customers. For these reasons we find merit in the studies reflected in Tables VI-C and VI-D, both of which exclude customer-related and demand distribution costs. We also conclude that a specific adjustment for the state's lifeline rate program is appropriate and in conformance with the Legislature's stated intentions in enacting Section 739 of the Public Utilities Code. We note that Table VI-D includes such an adjustment.

We also find merit in the staff's analysis of the benefits of the diversity of the agricultural class (Exhibit 50) because it recognizes the unique load characteristics of the agricultural class.

As to the question of how to adjust marginal cost rates to the level of the utility's actual revenue need, both the EPD method, recommended by the staff, and the "equal percentage of marginal cost" method, advocated by Edison and others, share the infirmity that they represent a simplistic, statistical approach to ratemaking. We have never apportioned revenue need in that manner. To the contrary, electric ratemaking has always involved a weighing of many factors, many of which do not readily lend themselves to statistical analysis. As we said in Decision No. 78802, 72 CPUC 282, 308,

> "The standard liturgy in revenue apportionment calls for the consideration of rate history, characteristics of use, rate zoning, stability of revenue, comparison with other utilities, cost of service, value of service, and competitive considerations, all leavened with the application of judgment and experience. These considerations boil down to four: cost of service, competition, characteristics of use, and public benefit."

Although the recent use of marginal cost pricing and the enactment by Congress of PURPA standards would change somewhat the description of the factors quoted above, a leavening through the "...application of judgment and experience..." is just as necessary today as it was then.

Therefore, although based principally on marginal price considerations, the table of base rate increases by the major customer groups shown on page 152, mimeo., represents our judgment as to the best balance of those considerations with rate history, characteristics of use, the requirements of PURPA and other factors, such as consistency with the pricing of natural gas, reviewed in the testimony of the witness for the Policy and Program Development Division (Tr. pp. 3422-3438)."

(2) <u>The following findings of fact are substituted for the findings bearing the same numbers found on pages 230 and 231, mimeo</u>:

"12. Marginal costs as developed by the staff's studies shown on Table VI-C and Table VI-D provide the acceptable approach to allocating cost recovery among customer groups because they provide a clear pricing signal relating to a customer's conservation measures and are in keeping with PURPA standards.

13. Adjusting marginal costs to a utility's revenue need involves the application of judgment and experience rather than simply a statistical formula.

15. Eliminating the domestic customer charge and recovering offsetting revenues through increased domestic energy charges is in keeping with the goals of the lifeline rate requirements in Section 739 of the Public Utilities Code and should enhance the cost-effectiveness of a customer's conservation measures. It is therefore reasonable.

16. Not increasing customer charges or service charges for Edison's nondomestic customers is in keeping with PURPA

standards and should enhance the cost-effectiveness of those customers' conservation measures.

17. Eliminating declining block rates for energy should enhance the cost-effectiveness of Edison's non-domestic customers' conservation measures and is in keeping with PURPA standards.

18. Based upon the above findings, it is reasonable and in the interest of encouraging conservation to obtain essentially all of the gross revenue increase authorized herein through higher charges for electric energy even though some measure of revenue instability may result."

(3) The following additional findings of fact shall be included:

"12a. Marginal customers costs and demand distribution costs relate to the connection of new customers rather than to an existing customer's decision to conserve energy and therefore should not be given weight when allocating cost recovery among customer groups.

18a. Based upon the above findings, the increases in base revenue by customer group shown on Table VI-V and in total revenue shown on Table VI-W are reasonable and are based, in general, on marginal cost."

IT IS FURTHER ORDERED that:

Rehearing of Decision No. 92549 as modified herein is denied.

The effective date of this decision is the date hereof.

Dated MAR 17 1981, at San Francisco, California.

President

Commissioners